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DEPT PASS TO USTR-AGAMA, EXIM-JRICHTER
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TAGS: ECON EFIN EINV OREP KCOR PREL NI
SUBJECT: NIGERIA: MINISTER OF STATE SHARES HIS VIEWS ON THE ECONOMY
WITH CODEL SHELBY

REF: ABUJA 578

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY.

¶1. (SBU) Summary. Senators Shelby, Gregg and Corker, along with the Ambassador, met with Minister of State for Finance Aderemi Babalola on March 17. The meeting focused on the financial sector and efforts towards combating money laundering and terrorist financing. Babalola told the Senators that the Government of Nigeria (GON) is improving its supervision of the financial sector to check money laundering and financial crimes. The oil price based fiscal rule aimed at saving oil windfall will continue. There is collaboration between fiscal and monetary authorities to control money supply in a bid to ensure price stability. The GON prefers a public-private partnership model rather than public spending to solve Nigeria's infrastructure problems. End Summary.

¶2. (SBU) On March 17, Senators Richard Shelby, Judd Gregg and Bob Corker accompanied by Ambassador Sanders, EconCouns, and EconOff and Econ Specialist (notetaker), met with Aderemi Babalola, Minister of State for Finance, to discuss Nigeria's financial sector and efforts towards combating money laundering and terrorist financing.
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We Have Lifted the Bar on Supervision

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¶3. (SBU) Babalola reported Nigeria has improved supervision of the financial services industry and there are further plans to enhance supervision. The Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) regulate the banks. The CBN is an independent agency that collaborates with the Ministry of Finance to achieve monetary and fiscal stability. The NDIC reports directly to the Ministry of Finance.

¶4. (SBU) The banking industry has moved to risk-based supervision, a departure from past prudential guidelines supervision. There is collaboration between the banks, the CBN and the Nigerian Financial Intelligence Unit (NFIU) to curtail money laundering. Babalola stated that the GON has also focused on the capital market to rein in laundered money. Currently all applications for shares in public offers are verified to ascertain the sources of funds and the identity of applicants. There are also plans to introduce electronic channels for shares allotment, dividend payment and other transactions in the capital market to streamline supervision.
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Oil Price Based Fiscal Rule Will Continue

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¶5. (SBU) Babalola contended that the oil price based fiscal rule saving revenues above the budget benchmark price will continue even though the basis for Nigeria's excess crude account is not recognized by the constitution. The oil price based fiscal rule is a strategy for controlling money supply and achieving monetary stability by sterilizing excess crude oil revenues above the budget benchmark price. It ensures proper fiscal planning by overcoming the boom-bust cycle associated with high oil prices which results in the inability of the government to complete projects embarked upon when revenues were high. The strategy has led to more collaboration between the CBN and the Ministry of Finance. He reported ongoing discussions among the Presidency, state governors and the National Assembly to convince the states that this fiscal rule is necessary.

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Infrastructure

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¶6. (SBU) Regarding the huge infrastructure problems in Nigeria, Babalola said that past governments had relied solely on public spending to solve the problem. This resulted in fiscal and monetary instability and no infrastructural improvement. Babalola said the government's strategy is to leverage private capital for infrastructure projects while social infrastructure such as education and health remain financed by the government.
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Joint Venture Cash Calls

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¶7. (SBU) On the GON's yearly obligations in joint ventures with

multinational oil companies popularly referred to as Cash Calls, Babablola said the government cannot fully fund its expected yearly equity obligations, which amount to about $8 billion. The GON will pay $5 billion in 2008 and there is an agreement with the oil companies to raise the $3 billion shortfall from both the domestic and international capital markets. He posited that since the return on investment in the sector is quite high based on the current international price for crude oil, there shouldn't be a problem in raising the $3 billion shortfall from the capital market.
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Comment

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¶8. (SBU) Continuous USG collaboration with the GON has resulted in serious GON efforts to combat money laundering. The infrastructure problems are huge and it is possible that through public private partnerships better results will be achieved. Macroeconomic stability has been enhanced by implementation of the excess crude account and it is important that the GON find a way to maintain the account. If it is eliminated, federal and state spending would increase, leading to higher inflation. The understanding between the GON and the multinational oil companies may already be yielding some fruits as Shell and ExxonMobil have announced plans on alternative sources of funding. This may go a long way in ensuring that upstream projects are not stalled due to lack of funds.

¶9. (U) The Codel did not have an opportunity to clear this message.

SANDERS